

## **Communiqué from Industrivärden's Annual General Meeting on May 3, 2001**

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Industrivärden's Annual General Meeting was held on May 3 at the Grand Hotel in Stockholm, at which the following decisions were made:

- The AGM approved an unchanged dividend of SEK 5.00 per share, and decided to pay a bonus dividend of SEK 3.40, for a total of SEK 8.40 per share. CPN interest was thus SEK 9.66. The record date for the dividend was set at May 8, and thus the dividend and CPN interest are expected to be paid via VPC (the Swedish Securities Register Center) on May 11.
- Directors reelected to the Company's Board were Inga-Britt Ahlenius, Tom Hedelius, Finn Johnsson, Lennart Nilsson, Clas Reuterskiöld and Bo Rydin. Anders Nyrén joined the Board as a newly elected Director. Carl-Erik Feinsilber had declined reelection. At the subsequent, statutory Board meeting, Anders Nyrén was named President and CEO of the Company.

The auditing firm Öhrlings PricewaterhouseCoopers AB was elected at the 1999 Annual General Meeting to serve as auditors for the period through the 2002 Annual General Meeting.

- The Board was authorized to make decisions on purchases and transfers of up to 5 million shares of the Company's own stock during the period up until the next Annual General Meeting.

### **Address by President and CEO Clas Reuterskiöld to Industrivärden's Annual General Meeting on May 3, 2001**

Honored shareholders, ladies and gentlemen:

Today Industrivärden presented its interim report for the first quarter of 2001. Unfortunately, we were forced to note a sharp decline in the value of our portfolio of listed stocks. For the first quarter in a long time, the portfolio performed worse than the General Index, with a 25 percent drop in value, compared with -18 percent for the index. A shimmer of light in the darkness is that our own stock performed better than the market average, which is a vote of confidence from the market.

The negative outcome for the listed portfolio can be attributed to two of our major holdings, Ericsson and Skandia, while the trend for the rest of our portfolio was relatively better.

Ericsson – like its competitors – was hit hard by a rapid drop in demand for telecom equipment from the telecom operators. Added to this were problems in the consumer products segment. Two weeks ago Ericsson's management presented an extensive action program on top of the measures already initiated in its mobile phone segment, and it announced an agreement with the Japanese company Sony to work on forming a new, powerful consumer products company in the telecom sector. Despite these measures, earnings for this year will not be satisfactory. However, as a result of the measures now being carried out, it appears that the conditions have been created for a clear improvement in 2002. Meanwhile, despite the current problems – for the industry as well as for Ericsson – my belief in the company and its future is strong.

Stocks characterized as growth stocks – such as Skandia's – have taken a greater beating than others in the current decline in the world's stock exchanges. In Skandia's case, the decline has been intensified by a drop in the company's rate of growth, and in recent months sales have even stagnated. Despite this, Skandia has increased its market shares in all markets – except for in the USA, where it has had to report a slight decline.

There is a strong covariance between the trend for stock-related savings products and the stock market's overall performance. Consequently, once the negative market trend turns and stock prices begin rising again, it is very likely that Skandia's sales will also rebound and lay the foundation for positive performance of Skandia's stock.

The current stock market decline has now gone on for over fourteen months. Against this backdrop, many people are surely asking if stocks are a wise form of savings. In spite of the recent trend, my answer to this question is an unequivocal "yes," with the qualification that as a stock investor you must be able to invest long-term.

During the last fifty years, the stock market trend has been positive for 35 years and negative for 15. On only one occasion has the trend been negative for two years in a row. During this period, the average annual return on equity investments has amounted to 14 percent. This is considerably higher than the return you would receive from an investment in bonds or real estate.

We all know that it is very difficult to make accurate forecasts of how the stock market will perform. A general observation in this context is that many investors find it difficult foreseeing or even imagining a break in the current price pattern. If prices go up, then people will believe in continued rises. If they go down, then people view the future with great pessimism. One thing for sure, however, is that upturns follow downturns, and vice versa. Such will be the case this time, too. Naturally, exactly when the upturn will come I cannot say, but my belief is that it is not that far away.

At Industrivärden, a long-term approach is one of the guiding principles of our investment policy. Other key principles are concentration, analysis, and active ownership. We refrain from short-term trading in view of the large risk involved – especially in a falling market.

The work method we have chosen has been successful and has benefited you, our shareholders. During the last five-year period – despite the sharp decline in the stock market during the year just ended – you will be pleased to note that Industrivärden's stock has generated an average annual total return of 30 percent, compared with 20 percent for the total return index and 5 percent in risk-free interest. As shareholders in Industrivärden, you have thus been amply rewarded for the risk that always accompanies a stock investment.

Our long-term approach at Industrivärden entails that we cannot present spectacular deals to the market every week or even every month. Despite this, large reallocations are constantly taking place in our portfolio. And although it may be desirable that a speech to the Annual Meeting should be forward-looking, I suppose it would be excusable for a retiring CEO to refrain from a future-oriented program declaration and instead describe the changes that have taken place during his term of office.

Seven years ago – after my predecessor Carl-Erik Feinsilber's prosperous acquisition of Investment AB Bahco – our asset base consisted of nearly 50 percent stocks in unlisted companies, mainly subsidiaries. Today the corresponding share is under 10 percent. In addition to a number of small companies, PLM and Thorsman were sold, in both cases with major capital gains.

Our five largest holdings seven years ago were – starting with the largest – Ericsson, AGA, SCA, PLM and Handelsbanken. The holdings in AGA and PLM have since been divested. SCA continues to be an interesting holding in our portfolio, but it no longer belongs to the group making up our five largest investments.

Ericsson is still our largest holding, while Handelsbanken – following additional purchases and a favorable growth trend – has advanced to the number two spot. In the third to fifth positions we have three new holdings. Since 1998 we successively bought SEK 2.3 billion in Skandia stock, and today this holding has a market value of SEK 4.4 billion. This means that we are now Skandia's single largest shareholder after the Pohjola Group.

Another holding that has been added during the seven-year period is Sandvik. Since we acquired our stake, Sandvik as a company has developed satisfactorily, with growth in sales and earnings that are well in line with the estimations we made at the time of the acquisition. However, in all honesty, Sandvik's stock has not performed according to our expectations.

As with Skandia, our investments in the pharmaceutical sector are based on the current shift in the population pyramid. Average life expectancies are rising throughout the Western world, which is putting strains on collective pension schemes. Individuals are being forced to a rising degree to save for old age, which is the foundation of Skandia's strong expansion in the area of long-term savings.

Another consequence of rising average life expectancies is a greater need for health care and medicines. Granted, pharmaceutical stocks are highly valued. At the same time, however, pharmaceutical companies are showing good growth and are largely independent of economic swings. At Industrivärden we have found that pharmaceutical stocks are a desirable feature in our portfolio of listed stocks.

The pharmaceutical companies consist for the most part of major international corporations with considerable market values. Due to the size of these companies, Industrivärden can hardly become a large enough owner that we would be able to exercise active ownership. Instead of investing in one company, we have built up a portfolio of pharmaceutical stocks in order to limit our risk. Following a careful analysis of the industry as well as of the individual companies, since 1998 we have invested a total of SEK 2.4 billion in three companies: Pfizer, Pharmacia and Lundbeck. These investments have been prosperous, and the market value of our pharmaceutical stocks is today approximately SEK 4 billion.

A larger percentage of listed stocks and a different "top-five" list are two ways of describing the changes that have taken place. Another way is to divide our holdings into growth stocks and stocks in mature industries, and then study how the composition has changed. Irregardless of the difficulties in defining which companies should be classified as mature or growth stocks, such a breakdown was less meaningful seven years ago. Today, however, investors in the stock market are showing a greater interest in growth stocks. As a result, growth stocks have also performed best. With this in mind, it is gratifying to note that our portfolio today is dominated by stocks in companies that are active in growth sectors.

The first picture I showed said: "Industrivärden – a holding company in change." I hope that the review I just presented shows that this is not breast-thumping empty rhetoric, but a true summary of our development in recent years. I am convinced that Industrivärden will continue to change with Anders Nyrén as CEO. In which way I cannot say – Anders will have to do that himself once he has settled into his new role. But I do believe that change will come gradually and that it will continue to be based on the four cornerstones of long-term perspective, concentration, analysis and active ownership.

I have restricted my look back in time to the period I spent as CEO of Industrivärden, but it can be extended as far back as 1977, as I have had the benefit of serving as CEO of four different listed companies. Based on my own experience, I can assure you that the stock market, too, has undergone an enormous change.

In 1977 there were a total of 133 companies listed on the Stockholm Stock Exchange, compared with 358 in 2001. In addition, today there are a good many companies quoted on unofficial lists. Of the 133 listed companies in 1977, only 34 are left today – among them Industrivärden. Another interesting change is that of those 133 listed companies, more than 20 were holding companies. Today that number is not even half.

Foreign ownership on the Stockholm Stock Exchange in 1977 was approximately 4 percent. Today that figure is well over 40 percent, and for a few companies it is more than 70 percent. The largest change took place during the Nineties, following the elimination of the currency controls.

In 1977, individuals accounted for a large portion of ownership – nearly 40 percent – and even more if you count their indirect ownership through listed companies that owned stock in other listed companies. Today direct ownership by individuals is down below 20 percent.

This lower figure hardly suggests that private stock ownership has declined – but that it has taken on new forms. Today a large part of savings is in mutual funds. A consequence of this is that individuals' role as active owners has been diminished. The course of action taken by mutual funds and other financial institutions – which is basically natural – is to sell a holding rather than take on an active ownership responsibility. However, in recent years the institutions have increased their involvement. Many institutions have formulated corporate governance policies which outline how they should act as owners. This means that institutions today regularly participate directly or indirectly on listed companies' nominating committees. But they still have quite a way to go before measuring up to the holding companies' way of exercising active ownership, such as through a readiness to participate in board work. It is my hope that the institutions will continue along the beaten path, even if it is of utmost importance for Swedish companies' development that management is familiar with the owners' demands as much as it feels their active support.

Trading volume on the Stockholm Stock Exchange for the full calendar year 1977 was SEK 1.8 billion. Today this amount is traded on a daily basis before the stockbrokers have even had time to finish their morning coffee. Trading volume on the Stockholm Stock Exchange in 2000 was nearly SEK 4,500 billion.

The number of people who earn their livelihood working directly or indirectly with the stock market has risen dramatically. Two such groups are analysts and financial journalists.

Listed companies are monitored intensively and in an increasingly aggressive manner. People who trade in the market want fast, accurate information about company developments. Many also want help with analyses and assessments. These wishes are being met by increasingly extensive reporting in the daily newspapers' business sections and an abundance of analyst reports. This trend is basically positive. However, on a few points I feel that there is cause for reflection.

One such example is the analysts' responsibility for the recommendations they make. Too many stock investors have found that they've had to pay dearly for their stockbrokers' advice. A clear example of this was the abundance of "buy" recommendations issued a little over a year ago for IT stocks, many of which were already overvalued. Many IT company CEOs were certainly far too optimistic about their companies' future prospects. But this does not excuse individual analysts from making a wrong assessment. It is hard not to suspect that many of the "buy" recommendations were made not only in consideration of the customers, but also in an ambition to increase the stockbrokerages' trading volume and thus the analysts' own bonuses. Whatever the case may be, I believe that the issue of advisor responsibility will be discussed more in the future than it is today.

CEOs of listed companies are having to spend more and more of their time communicating with the market. Company presentations are made with great regularity, and not only in connection with the interim and year-end book-closing. Answering journalists' and analysts' questions is an increasingly time-consuming duty, especially when a company is showing a negative trend. Delegating this duty to another employee is difficult, since demands are constantly being made that CEOs personally make themselves available to answer questions. The situation today is different than it was twenty years ago. Naturally, I understand that market communication is necessary. At the same time, I have often wondered if a company's development – and thus even its stock's – would be better if the CEO instead was allowed to dedicate part of the time spent communicating with the investment community to directly developing the company's business.

Over the years, financial journalism has become increasingly person-fixated. More and more, the spotlights are being directed on listed company CEOs, who are coveted fair game. The criticism is often harsh and ruthless, especially in times of slumping results or falling stock prices. The demand for a CEO's resignation is frequently called out as a solution for turning things around at a company. Coming from a background in the newspaper business, obstructing the free conveyance of news is against my nature. On the other hand, I feel that journalists should occasionally show a bit more humility in their treatment of the problems and avoid flat out personal persecution. Moreover, I feel that they should be more restrictive in quoting anonymous sources who say things like "Fire so-and-so and Company X's stock price will rise 10 percent." If the quoted source cannot take personal credit for such a statement, then readers as well as journalists should question the newspaper's credibility.

I know that many unfairly criticized CEOs and their families have repeatedly felt the negative effects of such superficial personal attacks, which are becoming far too common. I have chosen to take up this issue today not in protest over how I have been treated myself, but in the hopes that my views will at least make some people pause for reflection.

On the other hand, if a company is doing well and its stock price skyrockets, the CEO can often take pleasure in an excessively positive treatment. The step from scapegoat to corporate hero is often shorter than you'd think. As a CEO you have to take this kind of praise modestly. You must never forget that a company's success can be credited to many others than just the CEO. Without good employees, no CEO would be successful.

For my own part, at Industrivärden I have had the benefit of being able to work with a group of highly qualified, enterprising people – no one mentioned and no one forgotten. I want to thank them all for their outstanding efforts. I also know that they will be a strong support for Anders Nyrén when he now takes over the responsibility for Industrivärden's continued development. I wish Anders the best of luck in his future role, and I know that with his thorough knowledge, his broad base of experience, and his personal qualities, he will succeed.

Therefore, as a shareholder I feel very secure about my investment in Industrivärden. Granted, 2001 could have gotten off to a better start. But with the competence now gathered within Industrivärden and the high quality of our listed portfolio, I am convinced that the current trend will be broken to the pleasure of everyone who has shown us their confidence by investing in Industrivärden' stock.

Clas Reuterskiöld

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